

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Planning and Building	(2) MEETING DATE 12/2/2014	(3) CONTACT/PHONE Ted Bench, Planner III/(805)781-5701	
(4) SUBJECT Hearing to consider a request by the County of San Luis Obispo for amendments to Title 29 – Affordable Housing Fund, to consider resolutions adopting an annual adjustment of the residential in-lieu fee and commercial housing impact fee schedules, and approve the Annual Report and Action Plan for Year 2015 pursuant to Title 29. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board of Supervisors: 1. Adopt and instruct the chairperson to sign the attached resolution to adopt the annual adjustment to the in-lieu and housing impact fee schedules of Title 29. 2. Adopt and instruct the chairperson to sign the attached resolution to approve the Title 29 Annual Report and Action Plan. 3. Adopt and instruct the chairperson to sign the attached ordinance amending Title 29.			
(6) FUNDING SOURCE(S) Current Budget	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT { } Consent { } Presentation {X} Hearing (Time Est. <u>20 minutes</u>) { } Board Business (Time Est. <u> </u>)			
(11) EXECUTED DOCUMENTS {X} Resolutions { } Contracts {X} Ordinances { } N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: { } 4/5 Vote Required {X} N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? Yes	(16) AGENDA ITEM HISTORY {X} N/A Date: <u> </u>	
(17) ADMINISTRATIVE OFFICE REVIEW Lisa M. Howe			
(18) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo



TO: Board of Supervisors

FROM: Planning and Building / Ted Bench, Planner III

VIA: Dana Lilley, Supervising Planner

DATE: 12/2/2014

SUBJECT: Hearing to consider a request by the County of San Luis Obispo for amendments to Title 29 – Affordable Housing Fund, to consider resolutions adopting an annual adjustment of the residential in-lieu fee and commercial housing impact fee schedules, and approve the Annual Report and Action Plan for Year 2015 pursuant to Title 29. All Districts.

RECOMMENDATION

It is recommended that the Board of Supervisors:

1. Adopt and instruct the chairperson to sign the attached resolution to adopt the annual adjustment to the in-lieu and housing impact fee schedules of Title 29.
2. Adopt and instruct the chairperson to sign the attached resolution to approve the Title 29 Annual Report and Action Plan.
3. Adopt and instruct the chairperson to sign the attached ordinance amending Title 29.

DISCUSSION

Part 1: Annual Fee Adjustment

The Title 29 fees are better known as the affordable housing “in-lieu” fees. These fees are collected when construction permits are issued by the Planning & Building Department. The full name of Title 29 is “Title 29 - the Affordable Housing Fund of the San Luis Obispo County.”

Pursuant to Title 29, the Board considers making adjustments each year to the Title 29 fee schedules. The Board also adopts a resolution reflecting any adjustments to the fee schedules.

The fees may be adjusted for any of the following reasons:

- Annual construction cost adjustments
- Five-year phase-in period
- Periodic update of the fee formulas

All of the collected fees are used to support affordable housing projects. But developers can meet their affordable housing requirements by paying fees, or providing affordable dwellings or donating land. These options are describe in the County’s inclusionary housing ordinance. “In-lieu” fees are applied to Residential projects, and “housing impact” fees are applied to commercial projects.

Annual Construction Cost Changes

Title 29 fees are used to construct affordable housing, so the fees should be kept current with construction costs. Title 29 requires that fees to be adjusted each year to reflect the changes shown in the Engineering News Record – Construction Cost Index for San Francisco. This index shows that construction costs have increased by 4.9% for the period between August 1, 2013 and August 1, 2014. Staff recommends that the Title 29 fee schedules be adjusted to reflect the 4.9% increase in construction costs.

Five-Year Phase-In Period

In 2008, both Title 29 and the inclusionary housing ordinance were adopted with a five-year phase-in schedule. The intent of the phase-in period was to allow time for the housing market to adjust to the ordinance and recover from the recession. However, both the ordinance and the fee schedules have remained at “Year 1” since 2008.

At Year 1, only 20% of the Title 29 fees are being collected. For example, the in-lieu fee for residential development is \$3.55/SF, but only \$0.71/SF is collected (20%). The housing impact fee for commercial retail development is \$3.26/SF but only \$0.65/SF is collected (20%).

The developer may choose to pay the Title 29 fees or build inclusionary (affordable) housing units. These options are allowed by the inclusionary housing ordinance. For every five market rate houses built, one of the five houses must be affordable (20% of the project's units). But in “Year 1” just 4% of the project's units must be affordable (20% of 20% = 4%). In practice, most developers have chosen to pay the fees because the fees are currently much less than the cost of providing affordable units.

Periodic Update Caused Substantial Fee Adjustments in 2012

Title 29 requires the fee formulas to be updated every five years, with the next update scheduled to occur in 2017.

The original fee formulas for Title 29 were established in 2007, near the high point of the real estate boom. High housing costs can generate high in-lieu fees. In 2012 the fee formulas were revised to reflect the post-recession real estate market. The fees for residential development were reduced substantially, by more than 60%. However, the fees for commercial development were increased by 30% to 50%. These fee adjustments reflected post-recession housing costs and also a more accurate picture of the housing needs of employees working in new commercial projects.

Recommendation - Stay at “Year 1” of Fee Schedule

The Planning and Building Department suggests that the Title 29 fee schedules remain at “Year 1” of the five-year phase-in period. The fee schedules should still be adjusted to reflect the 4.9% construction cost increase. The attached resolution incorporates these recommendations.

While the housing market shows strong signs of recovery, it is unclear whether the level of construction activities has stabilized. Any significant fee schedule adjustments should be deferred until both the housing market and construction activities show steady signs of recovery. Moving to “Year 2” of the phase-in period would double the Title 29 fee amounts. At “Year 1” the fee amounts are 20% of what the full fee would be. At “Year 2” they would be 40%. The full fee amounts are supported by the nexus studies completed in 2012 in conformance with the Mitigation Fee Act (AB 1600 and Government Code 66001). However, the County has chosen to adopt lower fee and affordable housing requirements.

- The housing market shows signs of recovery. Market prices are up. But salaries have not kept up.

The following information comes from the National Association of Home Builders / Wells Fargo - Housing Opportunity Index:

San Luis Obispo-Paso Robles, CA			
Time Period	2nd Qtr. 2006	2nd Qtr. 2011	2nd Qtr. 2014
Median Price	\$550,000	\$320,000	\$440,000
Median Income	\$63,800	\$74,400	\$77,000
Housing Opportunity Index	5.9%	49.4%	28.2%

1. Website Address: http://www.nahb.org/reference_list.aspx?sectionID=135
2. Document Name:
The NAHB/Wells Fargo Housing Opportunity Index: Complete History by Metropolitan Area (1991-Current)
3. Housing Opportunity Index is based on variables such as median house prices, median incomes and mortgage interest rates.

Between 2011 and 2014, the median house prices increased by 37.5%. But the median salaries increased by only 3.5%. At this time (Year 2014) only 28% of the median income families can afford a median priced home.

- FY 2011/2012 marked the lowest level for construction activities. Recovery has begun.

Number of Completed Dwelling Units in Unincorporated County Areas

Fiscal Year	Single Family Residential units	Residential Multi-Family units	Total Units
FY 05/06	979	53	1032
FY 06/07	695	62	757
FY 07/08	741	82	823
FY 08/09	519	69	588
FY 09/10	362	113	475
FY 10/11	364	29	393
FY 11/12	200	21	221
FY 12/13	252	0	252
FY 13/14	311	19	330

Source: Monthly Permit Reports – County of San Luis Obispo Department of Planning & Building

Fiscal year 2011/2012 had the lowest number of completed dwelling units. It was also the year with the lowest number of completed commercial business units (67 units). By 2015 it should be clear whether the recovery trend will stabilize or continue to go up.

Part 2: Annual Report

The attached Annual Report follows the requirements of Title 29 Section 29.05.010. The report describes several things: 1) the amount of Title 29 fees that were collected and spent, 2) the affordable housing projects that were funded, and 3) the number of housing units produced.

The following table shows the amount of revenues received and spent since October, 2013:

Summary of all Title 29 Accounts - Between October, 2013 and October, 2014

Account	Starting Amount	Disbursements (-)	Remainder	New Income** (+)	New Amount Available
In-Lieu Fees	\$4,984	(\$4,984.00)	\$0	\$12,484.37	\$12,484.37
Housing Impact Fees	\$59,606.86	(\$52,518.47)	\$7,088.39	\$46,767.81	\$53,856.20
Total Amount	\$64,590.86	(\$57,502.47)	\$7,088.39	\$59,252.18	\$66,340.57

At the end of 2013, there was \$64,590.86 available in the Fund. Pursuant to the 2014 Action Plan, the County used the \$57,502.47 to help pay for the construction costs for 93 affordable housing units in three projects in Paso Robles, San Luis Obispo, and Oceano. The following table shows the status of the funded projects:

Projects Supported by the Title 29 Fund during the Previous Year (2014 Action Plan)

Project Name	Amount Allocated	Amount Drawn	Remaining Amount	Was Project Completed?
Oak Park – Phase 1 Paso Robles (80 units)	\$16,362.27	\$16,362.27	\$0	Yes – Completed November, 2014
Moylan Terrace - Phase 2 San Luis Obispo (7 units)	\$35,974.78	\$35,865.78	\$109.00	Yes – Completed June, 2014
People's Self Help Oceano (6 units)	\$5,274.42	\$5,274.42	\$0	Yes – Completed September, 2014

Part 3: Action Plan

The Action Plan for 2015 will guide the use of the Title 29 funds for the coming year. Title 29 directs the County to allocate the funds to affordable housing projects within the same housing market area as where the projects that paid the Title 29 fees are located.

The following table summarizes the funding amounts available for each area of the County.

Funds Available for Each Area of the County**

Account	North County	South County	Central County	North Coast	Total
In-Lieu Fees	\$700.87	\$2,023.50	\$9,760.00	\$0	\$12,484.37
Housing Impact Fees	\$18,636.63	\$4,226.95	\$23,904.23	\$0	\$46,767.81
Loan Pay-Off	\$0	\$0	\$0	\$40,000	\$40,000
Remainder From 20014	\$0	\$0	\$109.00	\$6,979.39	\$7,088.39
Total	\$19,337.50	\$6,250.45	\$33,773.23	\$46,979.39	\$106,340.57

**See Action Plan Appendix - Housing Market Area Map. The County is divided into four Housing Market Areas.

Additional Funds – Loan Pay-off

In 2014, two affordable housing units were sold and the County loans were paid off. The County held second deeds of trust on these houses in the following amounts:

J. Bridges Unit / Avila Beach	+	M. Ruddy Unit/ Nipomo-Woodlands	=	Pay-Off Total
\$45,5530.36	+	\$43,402.82	=	\$88,933.18

Although the loan pay-off amounts are not in-lieu fees, the payments were deposited into the Title 29 Affordable Housing Fund. This money is not subject to the Title 29 requirements because it may be spent in any area of the County. The County staff recommends that \$40,000 of the funds be spent on the Morro del Mar Senior Apartment project in Morro Bay. The County has also provided federal funds to this project from the Dept. of Housing and Urban Development (HUD). Staff recommends that the remainder of the pay-off money be saved in the Title 29 Fund for use on future projects.

Recommended Project to be Funded in 2015

Title 29 requires the Action Plan to identify specific projects that will receive the affordable housing funds. Title 29 funds shall be spent primarily on the direct construction costs of affordable housing.

Recommended Projects to be Funded in 2015

Project Name	Amount Allocated
Oak Park – Phase 2 Paso Robles (62 units)	\$0
El Camino Oak Tract 2640 – Atascadero (12 units)	\$19,337.50
South Street Family Apt's San Luis Obispo (42 units)	\$33,773.23
Morro del Mar Senior Apt's Morro Bay (20 units)	\$46,979.39
Not Allocated: \$6,250.45 from South County area	\$0
Total amount allocated	\$100,090.12

The Planning and Building Department recommends allocating the Title 29 funds to three projects in 2015. The Paso Robles and Monterey County Housing Authorities will begin the construction of Oak Park – Phase 2 in January, 2015. The anticipated completion date is June, 2016. Oak Park – Phase 2 includes the demolition of 27 old apartment units and the construction of 62 new affordable apartment units. People's Self-Help Housing Corporation is managing the El Camino Oak "sweat equity" project. This project was started in January, 2014 and will be completed by March, 2015. It will have 24 single family dwellings. Due to an unexpected increase in lumber costs, 12 of the families need help in paying for the construction of their houses. The San Luis Obispo Housing Authority will start the construction of the South Street Family Apartments in January, 2015, and the anticipated completion date is June, 2016. South Street Family Apartments will have 42 affordable apartment units. The Pacific Southwest Community Development Corporation will start the construction of the Morro del Mar Senior Apartments in January, 2015 and the anticipated completion date is March, 2016. The Morro del Mar Senior Apartments will have 20 affordable apartment units. The South County area has no affordable housing projects currently under construction. Staff recommends that the County hold the South County area fund until new project(s) are started in that area. The fund may be held for up to five years before it must be returned to the developer or allocated to eligible projects in a neighboring area.

The attached Action Plan and resolution reflect these recommendations.

OTHER AGENCY INVOLVEMENT/IMPACT

The attached resolutions and ordinance amendment have been reviewed by County Counsel. County Counsel has approved the resolutions and ordinance amendment as to form and legal effect.

BUSINESS IMPACT STATEMENT

There would be minimal business impact if the existing Title 29 fee schedules remain at the "Year 1" level with the added 4.9% construction cost adjustment.

FINANCIAL CONSIDERATIONS

The Board's action will determine the level of adjustment to the Title 29 fee schedules for FY 2015/2016. Fee changes will go into effect in July, 2015.

These actions do not affect the cost to the County for administering the ordinances.

All County staff costs for administering Title 29 and the inclusionary housing ordinance are contained within the Planning and Building Department budget.

RESULTS

The intended result is to protect the viability of the building industry and to require a fair contribution to address the affordable housing needs caused by new development.

Encouraging the provision of affordable housing helps the County to meet many of its county-wide goals, including the goal of creating more livable communities.

ATTACHMENTS

Attachment 1 – Title 29 – Affordable Housing Fund Adjustment Resolution

Attachment 2 – Title 29 - Action Plan Resolution

Attachment 3 – Title 29 Ordinance Amendment

Attachment 4 – Title 29 Fee Adjustment (showing deletions and additions)

Attachment 5 – Annual Report and Action Plan